PROVINCE OF SASKATCHEWAN

11-12

ANNUAL REPORT

SASKATCHEWAN PENSION ANNUITY FUND

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This annual report is available in electronic format at **www.peba.gov.sk.ca**

Letters of Transmittal

Her Honour, The Honourable Vaughn Solomon Schofield
Lieutenant Governor of Saskatchewan

May it Please Your Honour:

I have the honour to transmit herewith the Annual Report of the Saskatchewan Pension Annuity Fund for the fiscal year ending March 31, 2012.

Ken Krawetz
Minister in Charge
Saskatchewan Pension Annuity Fund

The Honourable Ken Krawetz
Minister in Charge
Saskatchewan Pension Annuity Fund

Sir:

On behalf of the Saskatchewan Pension Annuity Fund Board, I have the honour to present herewith the Annual Report of the Saskatchewan Pension Annuity Fund for the fiscal year ending March 31, 2012.

Brian Smith
Board Chair

Chair's Comments

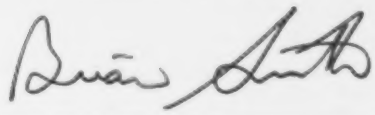
It is my privilege to serve as Chair for the Saskatchewan Pension Annuity Fund Board (the Board). I am pleased to present the 2011-2012 Saskatchewan Pension Annuity Fund (SPAF) Annual Report.

SPAF was originally established by section 43.1 of *The Superannuation (Supplementary Provisions) Act* as the Public Employees (Government Contributory) Annuity Fund. It became known as SPAF with the inception of *The Saskatchewan Pension Annuity Fund Act* on July 1, 1997.

On April 1, 2005, the Board was established. The three members of the Board are appointed by the Minister of Finance. The Board's responsibilities include administration of the Act and Plan, and management and operations of the Fund.

This Annual Report details initiatives set for 2009-2010 to 2014-2015, as well as the Plan's most recent accomplishments and new activities planned through to 2013. This is the fifth year in which there has been reporting on SPAF strategic initiatives.

On behalf of the Board, I am pleased to present the 2011-2012 Annual Report for the Saskatchewan Pension Annuity Fund Board.



Brian Smith
Board Chair

Introduction

The Saskatchewan Pension Annuity Fund (SPAF) was created for members of the Public Employees Pension Plan (PEPP) who want to purchase an annuity as their source of retirement income. *The Saskatchewan Pension Annuity Fund Act* governs SPAF.

The Fund provides members of PEPP with a life annuity paid for the life of the annuitant based on the:

- market conditions at the time the annuity is purchased;
- amount used to purchase the annuity;
- annuitant's and annuitant's spouse's age;
- guarantee period; and
- survivor benefit.

Once an annuity has been issued, neither the annuitant nor the Plan can change terms of the agreement.

Any deficiencies in the Plan are paid out of the General Revenue Fund and are the responsibility of the Government of Saskatchewan.

The annual operating expenditures associated with the Fund's administration are paid to the Public Employees Benefits Agency (PEBA) Revolving Fund and are charged to SPAF.

Saskatchewan Pension Annuity Fund Board

Effective April 1, 2005, the Saskatchewan Pension Annuity Fund Board (the Board) was established to administer the Fund. The Board, which consists of three members appointed by the Minister of Finance, is responsible for the administration of *The Saskatchewan Pension Annuity Fund Act*. At March 31, 2012, the Board was composed of the members listed in *Table 1.1*.

Saskatchewan Pension Annuity Fund Board Members	
Brian Smith	Chair
Lori Taylor	Member
Vacant	Member

Table 1.1

Members of the Board receive no compensation for the performance of their roles as Board members. They are remunerated for reasonable expenses for attending Board meetings and other functions in their capacity as Board members.

Contracted Services

The Board is ultimately responsible for the Fund's administration, communication and investment activities. To discharge these responsibilities, the Board uses the services of various organizations.

Under agreement with the Board, PEBA, provides administrative services for the Fund. PEBA is part of the Ministry of Finance, Government of Saskatchewan, and administers a wide range of pension and benefit plans.

Under agreement with the Board, PEBA:

- provides annuity estimates;
- calculates annuity and death benefits;
- prepares statements upon a member's death;
- accounts for all investment transactions; and
- provides executive management services to the Board.

PEBA is responsible for ensuring that all transactions are made in accordance with *The Saskatchewan Pension Annuity Fund Act*, *The Pension Benefits Act, 1992*, and their related regulations.

The Board retains RBC Dexia Investor Services Trust as the Plan custodian and Aon Hewitt as the investment consultant. The Board also retains Greystone Managed Investments Inc. as the investment manager and Aon Hewitt as the actuary.

Purpose

The purpose of the Fund is to provide annuity payments to pensioners who have chosen to purchase annuities through the Fund.

Mission

The Board's mission as the Fund's trustee is to manage the assets and expenses solely in the best interests of the pensioners and their beneficiaries.

Business Initiatives

In June 2009, the Saskatchewan Pension Annuity Fund Board adopted a business plan for the period 2009-2010 to 2014-2015. The Board's business goals as stated in its business plan are:

- Service Delivery, Design and Communications: Members of the Public Employees Pension Plan have access to information about purchasing annuities from the Fund. Pensioners and their beneficiaries have access to information about the Fund.
- Plan Governance: The Board's governance processes ensure the Board has the information needed to provide effective oversight of the Fund.
- Accountability: The activities of the Board and its service providers are reported.
- Risk Management: Risks facing the Fund are identified and effective strategies are employed to manage those risks.

The initiatives used to support these goals and associated objectives are not generally time bound. Rather, they are initiatives that are required to be undertaken on an ongoing basis.

The following section provides information on activities planned and accomplished in 2011-2012 in support of the Board's initiatives and goals, as set out in the SPAF Business Plan 2009-2010 to 2014-2015.

Business Initiatives

A. Service Delivery, Design and Communications

The Board recognizes that the delivery and design of services and communications focus on two different groups which have very different needs. The first group consists of the members of the Public Employees Pension Plan, the only group eligible to purchase annuities from the Fund. The members of this group are not members of the Fund; however, monies of the Fund have to be expended to ensure this group has information regarding annuities underwritten by the Board. The Board recognizes that this group is dynamic and will require different methods of communication.

The second group is pensioners and beneficiaries receiving annuity payments from the Fund. On an ongoing basis, pensioners' and beneficiaries' primary needs are met by providing annuity payments and annual tax reporting information.

Activities Planned and Accomplished in 2011-2012

- Ensure pensioners and beneficiaries have access to information regarding the Fund.
  - *Information regarding the Fund is posted to the website and updated as required. No updates were required in 2011-2012.*

Activities Planned for 2012-2013

- Ensure pensioners and beneficiaries have access to information regarding the Fund.

Business Initiatives

B. Plan Governance

The Board's governance processes ensure the Board has the information needed to provide effective oversight of the Fund.

The Board has developed its governance practices and policies in recent years. The Board will continue to implement and maintain its governance program.

Activities Planned and Accomplished in 2011-2012

- Continue development of a policy manual.
    - *Development of administrative policies was deferred to 2012-2013 due to operational priorities.*

Activities Planned for 2012-2013

- Continue development of a policy manual.

Business Initiatives

C. Accountability

Effective Fund management requires a strong focus on accountability, the basis of which is the establishment of measurable objectives and the monitoring of progress against these objectives. To ensure accountability, the reporting of results is critical.

The Board has established administration service standards and a Statement of Investment Policies and Goals for the Fund.

Activities Planned and Accomplished in 2011-2012

- Continue to enhance the Board's annual report.
  - *No enhancements were made in 2011-2012. The Plan continues to explore opportunities to enhance the annual report as they arise.*
- Continue to enhance the Fund's website.
  - *No enhancements were made in 2011-2012. The Plan continues to explore opportunities to enhance the website as they arise.*

Activities Planned for 2012-2013

- Continue to enhance the Board's annual report.
- Continue to enhance the Fund's website.

Business Initiatives

D. Risk Management

Effective governance requires a strong focus on risk management, the basis of which is the identification and quantification of risks and the development and implementation of effective strategies to manage the risks.

The Board has established an annual risk management planning process. This includes the identification of risks and the development and implementation of strategies to manage the risks. The Board also annually reviews the results of its risk management process.

Activities Planned and Accomplished in 2011-2012

- Continue the annual risk planning and review processes.
    - *In June 2011, the Board reviewed and approved the Risk Management Review for the year ended March 31, 2011 and approved the Risk Management Plan for 2011-2012.*

Activities Planned for 2012-2013

- Continue the annual risk planning and review processes.

Annuity Fund

Investment of Funds

The Board is responsible for holding in trust and investing the monies in the Fund. The Board has retained Greystone Managed Investments Inc. as its investment manager.

Greystone Managed Investments Inc. continues to manage an immunized bond portfolio (see objectives below).

The investment manager makes day-to-day decision of whether to buy or sell specific investments in order to achieve the long-term investment performance objectives set by the Board. It is these long-term investment performance objectives that the Board uses to assess the performance of the investment managers.

The investment objectives are:

- to structure the investment portfolio so that the Fund's net assets are immune to changes in the level of interest rates;
- to provide sufficient liquidity to ensure payment to retired members when due; and
- to ensure long-run solvency.

To achieve those objectives, the assets of the Fund should be invested so that:

- the duration of the investment portfolio is matched with the duration of the liabilities on an ongoing basis. The matching should fall within a band of -0.5 to +0.5 years of the duration target;
- the portfolio includes sufficient short term investments to meet liquidity needs; and
- the present value of the asset cash flow stream exceeds the present value of expected liability payments.

The Board has retained RBC Dexia Investor Services Ltd. as the custodian of the Fund. The custodian is responsible for custody of all financial assets of the Fund (in the name of the Saskatchewan Pension Annuity Fund). The custodian settles all investment transactions. The custodian also ensures that investment income (i.e., dividends, interest) is collected and provides financial information for all investment transactions.

The Board engages the services of an asset consultant to provide advice on the overall management of the Fund's investments and on the measurement of the Fund's performance. Aon Hewitt provides this service to the Board.

Fund Administration

The Board has delegated the day-to-day administration of the Fund and management of its assets to PEBA. The cost for this is charged to the Fund.

PEBA is a branch of the Ministry of Finance. PEBA administers a wide range of pension and benefit plans.

Under agreement with the Board, PEBA provides all services required to operate, administer and manage the Fund in a manner consistent with and according to all statutory provisions and regulations that apply to the Fund. PEBA reports measurement against standards to the Board quarterly. *Table 1.2* provides measurement results for the 2011-2012 year.

PEBA also provides Senior Executive Officer services and Executive Secretary services to the Board.

In 2011-2012, the Board paid PEBA $202,000 for administrative services.

Annuities

During the 2011-2012 fiscal year the Fund paid a total of $13,988,000 in annuities to 1,978 members or spouses of members.

Figure 1.1 shows the number of annuitants and beneficiaries receiving survivor benefits in the Fund as of the current year-end.

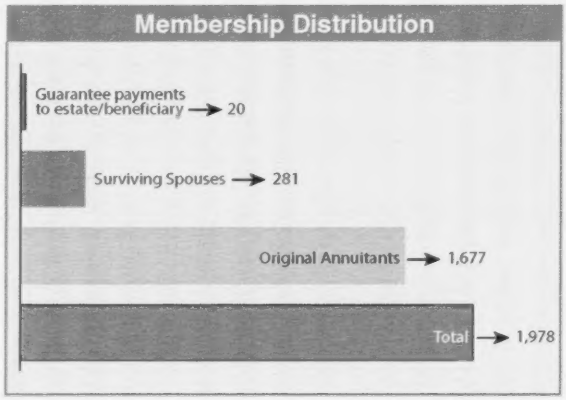


Figure 1.1

PEBA Service Standards April 1, 2011 to March 31, 2012

Task	Completed	Number that Meet or Exceed Standard	% that Meet or Exceed Standard	Standard* (Days)	Statutory Requirement** (Days)
Statement on retirement	45	40	88.9	5	90
Statement on death	41	38	86.4	5	90
Payment of death benefits	5	5	100.0	5	-
Annuity estimates for PEPP members	695	659	94.8	5	-
Spousal break down calculations	0	0	N/A	5	-
Written correspondence ***	Not measured	Not measured	N/A	5	-
Total	786	742	94	-	

* Standard is set within "Schedule A" of the agreement between the Board and PEBA.

** Statutory Requirement is a compliance standard within *The Pension Benefits Act, 1992* and *Regulations, 1993*.

*** The majority of written correspondence is received by PEPP Inquiry e-mail. The PEPP Inquiry e-mail receipts and responses are monitored daily by the Assistant Manager.

Table 1.2

Management's Report

To the Members of the Legislative Assembly of Saskatchewan

The Saskatchewan Pension Annuity Fund Board consists of three people, a Chairman and two other members, each appointed by the Minister. The Board is responsible for financial administration, administration of the funds and management of assets.

The financial statements which follow have been prepared by management in conformity with accounting principles generally accepted in Canada and have been approved by the Board. Management uses internal controls and exercises its best judgement in order that the financial statements reflect fairly the financial position of the Fund.

The present value of annuities is determined by an actuarial valuation. Actuarial valuation reports require best estimate assumptions about future events, which require approval by management.

The financial statements have been audited by the Provincial Auditor whose report follows.

Assistant Deputy Minister
Public Employees Benefits Agency

Ann Mackrill
Executive Director, Pension Programs
Public Employees Benefits Agency

Kara Marchand, CMA
Director, Corporate Services
Public Employees Benefits Agency

Regina, Saskatchewan
June 28, 2012

Actuaries' Opinion

Aon Hewitt was retained by the Public Employees Benefits Agency (PEBA) to perform an actuarial valuation of the accumulated provision for annuities payable from the Saskatchewan Pension Annuity Fund (Fund) on an accounting basis as at March 31, 2012.

The actuarial valuation of the Fund's accumulated provision for annuities payable was based on:

- membership and asset data provided by the Public Employees Benefits Agency as at March 31, 2012;
- assumptions about future demographic events which were developed by management and Aon Hewitt and are considered as management's best estimate of these events; and
- a discount rate chosen to be consistent with the asset values reported in the Fund's financial statements.

While the actuarial assumptions used to estimate the accumulated provision for annuities payable for the Fund's financial statements contained in the Annual Report represent management's best estimate of future events, and while in our opinion these assumptions are reasonable, the Fund's future experience will differ from the actuarial assumptions. Emerging experience differing from the assumptions will result in gains or losses that will be revealed in future valuations, and will affect the financial position of the Fund.

We have tested the data for reasonableness and consistency with prior valuations and in our opinion the data is sufficient and reliable for the purposes of the valuation. In our opinion the methods employed in the valuation and the assumptions used are, in aggregate, appropriate. Our opinions have been given and our valuation has been performed in accordance with accepted actuarial practice.

David R. Larsen, FSA, FCIA
Aon Hewitt

June 28, 2012

Saskatchewan Pension Annuity Fund Board
Saskatchewan Pension Annuity Fund

Financial Statements

Year Ended March 31, 2012

Independent Auditor's Report

To: The Members of the Legislative Assembly of Saskatchewan

I have audited the accompanying financial statements of the Saskatchewan Pension Annuity Fund, which comprise the statement of financial position as at March 31, 2012, March 31, 2011 and April 1, 2010, and the statements of changes in net assets available for benefits, and changes in provision for annuity obligations for the years ended March 31, 2012 and March 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans for Treasury Board's approval and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

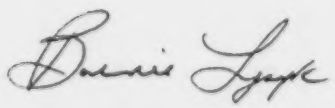
My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Saskatchewan Pension Annuity Fund as at March 31, 2012, March 31, 2011 and April 1, 2010, and the changes in net assets available for benefits and the changes in provision for annuity obligations for the years ended March 31, 2012 and March 31, 2011 in accordance with Canadian generally accepted accounting principles.



Regina, Saskatchewan
June 28, 2012

Bonnie Lysyk, MBA, CA
Provincial Auditor

Saskatchewan Pension Annuity Fund
Statement of Financial Position

Statement 1

	(in thousands) March 31 2012	March 31 2011	April 1 2010
ASSETS			
Investments (Note 4)			
Short-term	$ 160	$ 106	$ 358
Bonds and debentures	172,869	152,498	138,422
Investments under securities lending program (Note 4)	14,076	15,428	26,286
	187,105	168,032	165,066
Receivables			
Accrued investment income	2,132	2,139	2,210
Early retirement benefits receivable from employer	-	11	1
	2,132	2,150	2,211
Due from General Revenue Fund (Note 5)	31	53	54
Total assets	189,268	170,235	167,331
LIABILITIES			
Administrative expenses payable	109	73	84
Provision for annuity obligations (Note 6)	185,520	168,467	167,079
Total liabilities	185,629	168,540	167,163
NET ASSETS AVAILABLE FOR BENEFITS (Statement 2)	$ 3,639	$ 1,695	$ 168

(See accompanying notes to the financial statements)

Saskatchewan Pension Annuity Fund
Statement of Changes in Net Assets Available for Benefits

Statement 2

Year Ended March 31

(in thousands)

	2012	2011
INCREASE IN ASSETS		
Transfers from designated plan	$ 10,535	$ 5,538
Interest income	7,582	7,678
Change in fair value of investments	15,216	3,724
Total increase in assets	33,333	16,940
DECREASE IN ASSETS		
Change in provision for annuity obligations (Note 6)	17,053	1,388
Annuities	13,988	13,708
Administration (Note 7)	348	317
Total decrease in assets	31,389	15,413
INCREASE IN NET ASSETS	1,944	1,527
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	1,695	168
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR (Statement 1)	$ 3,639	$ 1,695

(See accompanying notes to the financial statements)

Saskatchewan Pension Annuity Fund
Statement of Changes in Provision for Annuity Obligations

Statement 3

Year Ended March 31

(in thousands)

	2012	2011
PROVISION FOR ANNUITY OBLIGATIONS, BEGINNING OF YEAR	$ 168,467	$ 167,079
Increase in provision for annuity obligations:		
Interest on previous liabilites and payments	6,786	7,209
Liability for new annuities purchased	8,663	4,836
Plan experience loss	718	-
Change in discount rate assumption	14,658	4,430
	30,825	16,475
Decrease in provision for annuity obligations:		
Annuity payments made	13,449	13,455
Plan expenses paid	323	323
Plan experience gain	-	1,309
	13,772	15,087
PROVISION FOR ANNUITY OBLIGATIONS, END OF YEAR (Note 6)	$ 185,520	$ 168,467

(See accompanying notes to the financial statements)

Saskatchewan Pension Annuity Fund
Notes to the Financial Statements

March 31, 2012

1. Description of Fund

The Saskatchewan Pension Annuity Fund (Fund) is established under *The Saskatchewan Pension Annuity Fund Act* (Act). The Act establishes the Saskatchewan Pension Annuity Fund Board (Board) to administer the Fund. The day-to-day administration is provided by the Public Employees Benefits Agency (PEBA).

The purpose of the Fund is to provide annuities to members of designated pension plans. Currently, the only designated pension plan is the Public Employees Pension Plan. Members of a designated plan may, upon retirement, elect to receive an annuity from the Fund, as an alternative to purchasing an annuity from a private company that issues annuities. Those electing to receive an annuity from the Fund transfer their accumulated contributions and investment income from their designated plan to the Fund at the time of retirement.

Subsection 5(7) of the Act requires any amount by which the liabilities of the Annuity Fund exceed the assets of the Fund to be a charge on, and a payable out of, the General Revenue Fund. As the annuities payable are long-term liabilities, and management does not expect to require funding to meet their current obligations, the Fund has not recorded any amount as a receivable from the General Revenue Fund.

2. Basis of Preparation

a) Statement of compliance

The financial statements for the year ended March 31, 2012 have been prepared in accordance with Canadian accounting standards for pension plans as outlined in the Canadian Institute of Chartered Accountants (CICA) Handbook Section 4600, *Pension Plans*. For matters not addressed in Section 4600, International Financial Reporting Standards (IFRS) have been followed.

The Plan's financial statements were previously prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). While previous Canadian GAAP differs in some areas from Section 4600 and IFRS, there were no differences that affected the financial statements of the Plan.

These financial statements were authorized and issued on June 28, 2012.

b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for financial instruments which have been valued at fair value.

c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Plan's functional currency, and are rounded to the nearest thousand dollars unless otherwise stated.

3. Significant Accounting Policies

The accounting policies considered significant are as follows:

a) Basis of Accounting

These financial statements are prepared on the going concern basis and present the aggregate financial position of the Plan as a separate financial reporting entity independent of the sponsor and plan members. They are prepared to assist Plan members and others in reviewing the activities of the Plan for the fiscal period but they do not portray the funding requirements of the Plan or the benefit security of individual plan members.

b) Investments

Investments are stated at fair value. The change in the fair value of investments at the beginning and end of each year is reflected in the statement of changes in net assets available for benefits as change in fair value of investments.

Fair value of investments is determined as follows:

Short-term investments are valued at cost which, together with accrued investment income, approximates fair value given the short-term nature of these investments.

Bonds and debentures are valued at year-end quoted bid prices from recognized security dealers.

c) Investment Income and Investment Transactions

Investment income is recorded on the accrual basis. Investment transactions are recorded on the trade date.

d) Provision for Annuity Obligations

The provision for annuity obligations represents the present value of the annuities underwritten and is determined pursuant to an annual actuarial valuation.

Any resulting change in the provision for annuity obligations pursuant to the valuation is recognized in the statement of changes in net assets available for benefits.

e) Adoption of new Accounting Standards

Effective April 1, 2011, the financial statements have been prepared in accordance with Canadian accounting standards for pension plans as outlined in the CICA Handbook, section 4600, Pension Plans. These standards were required to be adopted with retrospective restatement. The transition to the new standards did not require any changes to the prior year figures or the plan's accounting policies. The opening statement of financial position in accordance with section 4600 as of April 1, 2010 has been disclosed for comparative purposes.

f) Future Accounting Policy Changes

A number of new standards, amendments to standards and interpretations which become effective for annual periods beginning on or after January 1, 2013 and which may have an impact on the Plan, include: IFRS 9, Financial Instruments; IFRS 12, Disclosure of Interests in Other Entities; and IFRS 13, Fair Value Measurement. The extent of the impact on adoption of these standards is not known at this time, but is not expected to be material.

g) **Use of estimates**

The preparation of financial statements in accordance with Canadian accounting standards for pension plans requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined. The most significant estimation process is related to the actuarial determination of the provision for annuity obligations (Note 6).

h) **Financial Assets and Liabilities**

Financial assets classified as held for trading are measured at fair value and changes in fair value are recognized in the statement of changes in net assets available for benefits. Investments and Due from General Revenue Fund are designated as held for trading. For Due from General Revenue Fund, its fair value is determined at cost which approximates market value.

Loans and receivables, and other financial liabilities are measured at amortized cost. Due to their short-term nature, the amortized cost of these instruments approximates their fair value.

The fair value of the accumulated provision for annuities payable cannot be readily determined; however, information about the estimated provision is provided in Note 6.

4. Investments

The carrying values of the Plan's investments are as follows:

	(in thousands)		
	2012	**2011**	**April 1, 2010**
Short-term	$ 160	$ 106	$ 358
Bonds and debentures	172,869	152,498	138,422
	$ 173,029	**$ 152,604**	**$ 138,780**
Investments under securities lending:			
Short-term	$ -	$ -	$ -
Bonds and debentures	14,076	15,428	26,286
	$ 14,076	**$ 15,428**	**$ 26,286**

Details of significant terms and conditions, exposure to interest rate and credit risks of investments are as follows:

Short-term Investments

Short-term investments are comprised of treasury bills and notes with effective rates of 0.92% (2011 – 0.98%) and an average remaining term to maturity of 82 days (2011 - 70 days). The Fund's investment policy states that investments must meet a minimum investment standard of "R1" as rated by a recognized credit rating service.

Bonds and Debentures

The Fund's investment policy states that federal and provincial government bonds and debentures must meet a minimum quality standard of BBB as rated by a recognized credit rating service. No more than 15% of the par value of the bond portfolio may be invested in BBB rated bonds. No more than 10% of the market value of the bond portfolio may be invested in corporate bonds. At March 31, 2012, the Fund held 2.50% (2011 – 2.16%) of the market value of bonds and debentures in corporate bonds. The minimum credit rating for corporate bonds is "A" or equivalent as rated by a recognized credit rating service.

2012 (in thousands)

Years to Maturity	Federal	Provincial	Corporate	Total Market Value	Coupon Rate	Effective Interest Rate
Under 1	$ 1,859	$ 308	$ 1,980	$ 4,147	6.00% - 6.25%	1.19%
1 to 5	9,221	21,417	785	31,423	0.00% - 11.25%	1.58%
5 to 10	14,639	27,764	1,101	43,504	0.00% - 10.60%	2.36%
Over 10	18,612	88,446	813	107,871	0.00% - 9.92%	3.32%
Market Value	$ 44,331	$ 137,935	$ 4,679	$ 186,945		

2011 (in thousands)

Years to Maturity	Federal	Provincial	Corporate	Total Market Value	Coupon Rate	Effective Interest Rate
Under 1	$ 771	$ 2,814	$ -	$ 3,585	0.00% - 6.00%	1.22%
1 to 5	6,990	20,991	2,867	30,848	0.00% - 11.25%	2.42%
5 to 10	8,660	26,379	-	35,039	0.00% - 10.60%	3.62%
Over 10	27,071	70,620	763	98,454	0.00% - 9.92%	4.22%
Market Value	$ 43,492	$ 120,804	$ 3,630	$ 167,926		

April 1, 2010 (in thousands)

Years to Maturity	Federal	Provincial	Corporate	Total Market Value	Coupon Rate	Effective Interest Rate
Under 5	$ 278	$ -	$ -	$ 278	8.75% - 9.50%	0.75%
1 to 5	4,285	19,655	2,943	26,883	0.00% - 10.25%	2.50%
5 to 10	12,124	27,493	-	39,617	0.00% - 11.25%	3.81%
Over 10	32,777	64,391	762	97,930	0.00% - 10.50%	4.95%
Market Value	$ 49,464	$ 111,539	$ 3,705	$ 164,708		

Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

Fair Value

The Fund has classified its required fair valued financial instrument holdings using a hierarchy that reflects the significance of the inputs used in determining their measurements.

Under the classification structure, financial instruments recorded at unadjusted quoted prices in active markets for identical assets and liabilities are classified as Level 1. Instruments valued using inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly are classified as Level 2. Instruments valued using inputs that are not based on observable market data are classified as Level 3.

The following table classifies the Fund's required financial instruments within a fair value hierarchy:

2012 (in thousands)

	Level 1	Level 2	Level 3	Total
Bonds and debentures	$ -	$ 186,945	$ -	$ 186,945
Short-term	160	-	-	160
Total	$ 160	$ 186,945	$ -	$ 187,105

2011 (in thousands)

	Level 1	Level 2	Level 3	Total
Bonds and debentures	$ -	$ 167,926	$ -	$ 167,926
Short-term	106	-	-	106
Total	$ 106	$ 167,926	$ -	$ 168,032

April 1, 2010 (in thousands)

	Level 1	Level 2	Level 3	Total
Bonds and debentures	$ -	$ 164,708	$ -	$ 164,708
Short-term	358	-	-	358
Total	$ 358	$ 164,708	$ -	$ 165,066

5. Due from General Revenue Fund

The Fund's bank accounts are included in the Consolidated Offset Bank Concentration arrangement for the Government of Saskatchewan.

The Fund's earned interest is calculated and paid by the General Revenue Fund on a quarterly basis to the Fund's bank accounts using the Government's thirty-day borrowing rate and the Fund's bank account balance. The Government's average thirty-day borrowing rate for the current year was 1.05% (2011 – 0.80%).

6. Provision for Annuity Obligations

The actuarial present value of the provision for annuity obligations was determined using the administrator's best estimate of future investment performance and inflation. An actuarial valuation was performed as at March 31, 2012 by Aon Hewitt (the next valuation will be required effective March 31, 2013). The assumptions used in determining the actuarial present value of annuities payable were:

	2012	2011	April 1, 2010
Discount rate	3.30%	4.20%	4.50%
Mortality	95% of UP94	95% of UP94	95% of UP94
Expense allowance	2.4% of annuities payable	2.4% of annuities payable	2.4% of annuities payable

The annual change in the provision for annuity obligations is reflected in the statement of changes in net assets available for benefits. The principal components of the change to the provision for annuity obligations during the year were as follows:

	(in thousands)		
	2012	2011	April 1, 2010
Provision for annuity obligations, beginning of year	$ 168,467	$ 167,079	$ 171,909
Interest on annuities payable	6,786	7,209	7,261
New annuities purchased in the year	8,663	4,836	2,949
Change in estimated future administration costs	-	-	163
Expected annuity payments	(13,449)	(13,455)	(13,464)
Data correction and experience (gain)	395	(1,632)	(237)
Change in assumed discount rate	14,658	4,430	(1,502)
Provision for annuity obligations, end of year	$ 185,520	$ 168,467	$ 167,079

Actual results may vary significantly from the assumptions used. It is reasonably possible, based on existing assumptions, that changes in future conditions in the near term could require a material change in the annuity obligations. A 1% increase in the discount rate would decrease the obligations $16.2 million (2011 - $14.0 million) and a 1% decrease in the discount rate would increase the obligations $19.0 million (2011 - $16.4 million).

The expected cash inflows from investment income and disposal of investments at maturity and the expected cash outflows to pay the annuities and administration expenses are calculated using the above assumptions. The expected net cash flows are based on actual dollar forecasts without any provision for inflation and they do not allow for future annuitants. The estimated net cash inflows/(outflows) for the next 5 years are ($2.2 million), for the next 10 years $1.0 million and for the next 30 years $10.4 million. The expected duration for investments is 9.25 years and for the provision for annuity obligations is 9.43 years.

7. Administration Expenses

(in thousands)

	2012		2011	
	Budget	Actual	Budget	Actual
Administration costs	$252	$202	$240	$178
Custodial fees - RBC Dexia Investment Services Trust	9	9	8	8
Investment management fees - Greystone Managed Investments Inc.	138	137	135	131
	$ 399	$ 348	$ 383	$ 317

8. Financial Risk Management

The nature of the Fund's operations result in a statement of financial position that consists primarily of financial instruments. The risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) and liquidity risk.

Significant financial risks are related to the Fund's investments. These financial risks are managed by having an investment policy, which is approved annually by the Board. The investment policy provides guidelines to the Fund's investment managers for the asset mix of the portfolio regarding quality and quantity of investments. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. The Board reviews regular compliance reports from its investment managers as to their compliance with the investment policy. The Board also reviews regular compliance reports from its custodian as to the investment managers' compliance with the investment policy.

Credit risk

Credit risk is the risk that one party does not pay funds owed to another party. The Fund's credit risk arises primarily from two distinct sources: accounts receivable and investments. The maximum credit risk to which it is exposed at March 31, 2012 is limited to the carrying value of the financial assets summarized as follows:

(in thousands)

	2012	2011	April 1, 2010
Receivables	$ 2,132	$ 2,150	$ 2,211
Investments	187,105	168,032	165,066
Due from General Revenue Fund	31	53	54

Accounts receivable are primarily made up of accrued investment income. Accrued investment income is received on the next scheduled payment date, generally either annually or semi-annually.

Credit risk within investments is related to short-term investments, bonds and debentures. It is managed through the investment policy that limits fixed-term investments to those of high credit quality (minimum rating for bonds, BBB, and for short-term investments is R-1) along with limits to the maximum notional amount of exposure with respect to any one issuer.

Credit rating for bonds and debentures are as follows:

(in thousands)

	2012		2011		April 1, 2010	
Credit Rating	Fair Value	Makeup of Portfolio (%)	Fair Value	Makeup of Portfolio (%)	Fair Value	Makeup of Portfolio (%)
AAA	$ 54,436	29.10%	$ 59,311	35.32%	$ 47,229	28.67%
AA	92,993	49.70%	83,581	49.78%	88,661	53.83%
A	31,198	16.67%	24,223	14.42%	27,985	16.99%
BBB	785	0.42%	811	0.48%	833	0.51%
Not Rated	7,533	4.11%	-	0.00%	-	0.00%
	$ 186,945	100.00%	$ 167,926	100.00%	$ 164,708	100.00%

Within bond and debentures, there are no holdings from one issuer, other than the Government of Canada or a Canadian province, over 1.06% of the market value of the combined bonds and debentures and short term investment portfolios. No one holding of a province is over 5.39% of the market value of the investment portfolio.

Market risk

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates and foreign exchange rates. Market risk primarily impacts the value of investments.

Interest rate risk

The Fund is exposed to changes in interest rates in its fixed income investments, consisting of short-term investments and bonds and debentures. Duration is a measure used to estimate the extent market values of fixed income instruments change with changes in interest rates. Using this measure, it is estimated that a 100 basis point change in interest rates would change net assets by $17.2 million at March 31, 2012 (2011 - $14.6 million); representing 9.20% of the $187 million fair value of fixed income investments.

Securities collateral

At March 31, 2012, no Fund assets have been deposited or pledged as collateral or margin. As part of the Fund's securities lending strategy, collateral has been pledged to the Fund by various counterparties for securities out on loan to the counterparties. At March 31, 2012, the total amount of collateral pledged to the Fund amounted to $14.8 million (2011 - $16.2 million).

Security lending obtains collateral of at least 105% of the market value of the securities lent. Such loans must be secured by cash and/or readily marketable government bonds, treasury bills and/or letters of credit, discount notes and banker's acceptances of Canadian chartered banks.

Liquidity risk

Liquidity risk is the risk that the Fund is unable to meet its financial obligations as they fall due. Cash resources are managed on a daily basis based on anticipated cash flows.

9. Related Party Transactions

All Government of Saskatchewan agencies such as ministries, corporations, boards and commissions are related since all are controlled by the Government. Also, the Fund is related to non-Crown enterprises that the Government jointly controls or significantly influences. These financial statements include expenses associated with administering the Fund and are paid to the PEBA Revolving Fund. Related party transactions with the Fund are in the normal course of operations and are recorded at exchange amounts agreed to by the parties to the transactions.

The Fund holds $916,536 (2011 - $844,633) Province of Saskatchewan Bonds and Debentures with a yield of 2.10% (2011 – 3.30%). Investment income including change in the market value of $71,903 (2011 - $52,814) was recorded from the Province of Saskatchewan Bonds and Debentures.

At year-end, the Fund has an accounts payable to the PEBA Revolving Fund of $29,623 (2011 – accounts receivable of $254).

Section 47.5 of the *Superannuation (Supplementary Provisions) Act* authorizes employers to provide early retirement benefits to eligible employees. The Fund pays these early retirement benefits to retired members of the Public Employees Pension Plan on behalf of employers. During the year, the Fund provided early retirement benefits of $65,700 and received $76,650 reimbursement from the employers including the amount of $10,950 that was receivable from last year. These transactions are not included in the statement of changes in net assets available for benefits.

Other transactions with related parties and amounts due to or from them are described separately in the financial statements and notes.

10. Capital Management

The Plan receives new capital from employee contributions. The Plan also benefits from income and market value increase on its invested capital. The Plan's capital is invested in long-term bonds and short-term instruments. The Minister has delegated the operational investment decisions to Greystone Managed Investments Inc. as defined in the Plan's Statement of Investment Policy and Procedures.

11. Comparative Figures

Certain prior year balances have been reclassified to conform with the current year's financial statement presentation.